

Sun Oil 1968

AR26



Site





Front cover:

The new face of Sun features both the DX and Sunoco brands. More than 16,000 stations like these provide top-quality products and services to motorists in 34 states and eastern Canada.

"Consummation of the merger of Sun Oil Company and Sunray DX Oil Company on October 25 marked the attainment of our primary goal. Born of that union was a new Company with a competitive thrust and capability for service surpassing the separate strengths of its component parts. The complementary nature of Sunoco and DX facilities and operating territories opens broad new opportunities for growth which will advantage stockholders, employees and customers. Full realization of these opportunities is your Company's goal for the future."

From Letter to Stockholders and Employees, page 1

1968 Annual Report • Sun Oil Company

Contents

1	Letter to Stockholders, Employees
5	Financial Review
7	Production
11	Manufacturing
15	Transportation
19	Marketing
21	Research
24	Employees
25	Financial and Statistical Section



The World of Sun as it looks from Philadelphia, Pa. It is a world of expanding energy development, on land and water, from the frozen Canadian North to the sunny Persian Gulf. Symbols mark the following areas where the Company is exploring for and/or producing petroleum: Arctic Islands, Argentina, Australia, the Bahamas, Borneo, Canada, Colombia, Mozambique, Nigeria, the North Sea, Papua, the Persian Gulf, the United States, including Alaska, and Venezuela.

Worldwide Operations

SUN OIL COMPANY AND SUBSIDIARIES

Financial	1968	1967
Revenues (thousands of \$)	1,801,211	1,740,885
Net Income (thousands of \$)	164,430	156,145
Preferred Stock		
Full shares outstanding at 12/31/68	18,494,905	—
Common Stock		
Full shares outstanding at 12/31/68	26,777,443	—
Net Income per common share outstanding at 12/31/68* (\$)	4.59	4.28
Cash Dividends Paid		
Preferred Stock (thousands of \$)	9,490	—
Common Stock (thousands of \$)	45,986	50,139
Stock Dividend	6%	5%
Capital Expenditures** (thousands of \$)	323,494	333,926
Total Assets (thousands of \$)	2,362,603	2,224,749

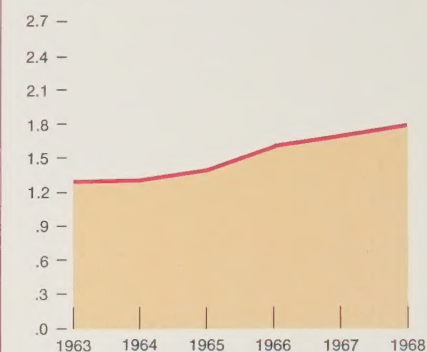
*After assuming a full year's requirements for dividends on preferred stock.
**Including intangible development costs.

Operating	1968	1967
Net Crude Oil and Condensate Produced (b/d)		
U.S. and Canada	215,690	211,280
Other	113,380	101,991
Net Wells Completed	434	515
Producing Acreage	1,052,000	991,000
Synthetic Crude—		
Net Produced for Shipment (b/d)	23,685*	—
Natural Gas Sales (mil. cu. ft./d)	1,505	1,347
Crude Oil Refined (b/d)		
By Sun Refineries	465,263	437,607
For Sun's Account	22,039	20,628
Refined Product Sales (b/d)	538,483	515,012

*92 days—plant became commercially operational October 1, 1968.

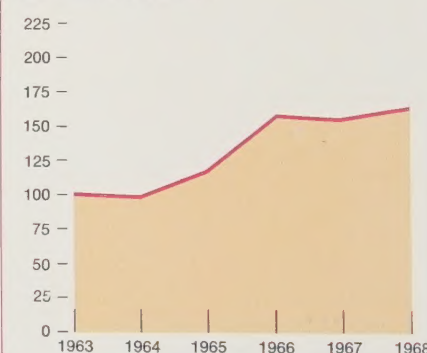
Revenues

3.0 — Billions of Dollars



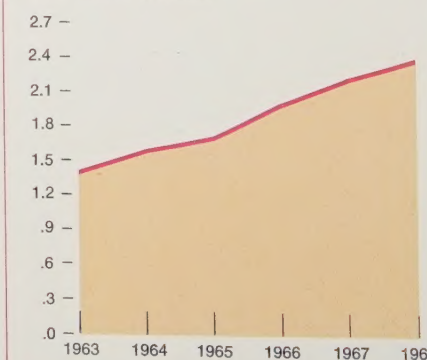
Net Income

250 — Millions of Dollars



Total Assets

3.0 — Billions of Dollars



To the Stockholders and Employees of Sun Oil Company:

YOUR COMPANY achieved satisfactory operating and financial gains in 1968 despite rising costs resulting from increased taxes and accelerating inflation.

Earnings of \$164,430,000 on revenues of \$1,801,211,000 represented an advance of 5 per cent over restated income for the previous year. Operating levels continued to rise in a year of peak performance for the petroleum industry, and new highs were recorded in all major phases of the Company's activities.

In accomplishing these gains, your Company also achieved four of five major objectives established early in the year.

Consummation of the merger of Sun Oil Company and Sunray DX Oil Company on October 25 marked the attainment of our primary goal. Born of that union was a new Company with a competitive thrust and capability for service surpassing the separate strengths of its component parts. The complementary nature of Sunoco and DX facilities and operating territories opens broad new opportunities for growth which will advantage stockholders, employees and customers. Full realization of these opportunities is your Company's goal for the future.

We were successful, also, in achieving these three other major objectives: (1) negotiating a favorable sale of Avisun Corporation, a wholly-owned subsidiary; (2) obtaining approvals for building a refining facility and lubricating oil plant in Puerto Rico; and (3) improving the basic profitability of the Company.

The major disappointment of the year was our failure to bring the Athabasca tar sands complex of Great Canadian Oil Sands Limited into profitable operation. Unanticipated difficulties with power plant boilers and other equipment prevented the project from becoming commercially operational until October. Our 1968 earnings reflected a \$6,700,000 loss experienced from October 1 to year-end. Moreover, extraordinary start-up

costs largely offset the \$22,432,000 realized from the sale of Avisun.

However, your management continues to feel that the large oil reserves being developed by this pioneering project will greatly enhance the Company's long-range resources position.

Operationally, 1968 proved to be a year of accelerating growth as major projects initiated by heavy investments in earlier years were brought to fruition. These new facilities contributed importantly to record-high oil and gas production, refinery runs and refined product sales. A sharp advance in sales of the higher-value, higher-octane gasoline blends was particularly encouraging, as were promising discoveries in the initial drilling of offshore leases.

Among major projects completed during the year were the \$50 million expansion program at the Toledo refinery; Liberia's first oil refinery, near Monrovia; producing facilities for bringing Sassan Field crude from the Persian Gulf to market; and new petrochemical production facilities at the Corpus Christi refinery.

Looking ahead to 1969, we anticipate an increasing demand for products and services which promises new opportunities for profitable growth. Realization of those opportunities, however, will require a willingness on the part of our government to act decisively in containing the monetary inflation which is eroding our economic gains.

The removal of wage and price guidelines, which were faulty in principle and ineffective in practice, and the apparent determination of the present Administration to face the inflation issue squarely are favorable signs. In our opinion, the major actions now required are holding expenditures to a level commensurate with income and assuring that our limited funds are devoted first to our highest priority needs.

In regard to government-related matters directly touching the petroleum industry, we feel continuing concern over the present method of federal control of wellhead natural gas prices. It is vital that the present policy be replaced

with one enabling prices to respond to market forces. Present controls are reducing incentives for exploration and development, and thereby creating a serious supply problem for the future. Also, we continue to urge that foreign investment controls, designed to improve our balance of payments position and strengthen the dollar, be removed at an early date. In the long run, limiting investment abroad will simply intensify the problem it is intended to help alleviate.

Your Company moves into the new year in an excellent position to strengthen its competitive position and to take full advantage of the growth opportunities offered by the merger. Promising offshore oil discoveries in the U.S. and continuing development of oil and gas finds abroad have strengthened our energy resources position. Heavy capital investments in recent years have boosted the productivity of our refineries and upgraded product output. Large-scale station construction, particularly on the Interstate highway system, and continuing station modernization have sharply increased our sales and service potential.

Most importantly, the accelerating pace of integrating Sunoco Division and DX Division facilities and operations should result in major gains in efficiency and in profit improvement.

We anticipate investing some \$296 million in expanding and improving our physical facilities in 1969, including \$65 million for drilling to develop new oil and gas reserves. A major undertaking will be preparatory work and start of construction of our Puerto Rico plants at Yabucoa. Because it provides an assured outlet for our foreign crude oil and will enable us to increase production of high quality lubricating oils, this project promises to be a substantial income producer for the Company in the future.

The growing capability of the Company's human resources—the pooled skills of its men and women—assures that our physical facilities will be used fully and effectively. Increased participation by employees in Company-sponsored training and development programs and in educational assistance plans promises a further strengthening of our most valuable asset, our people.

In closing, we wish to express our appreciation to our stockholders for their interest and support; to our employees for their outstanding contributions to the achievements recorded in the following sections of this Report; to our dealers and distributors for their excellent performance; and to our customers for their loyalty.

We look forward to sharing another year of challenge and change with each of you.



DIRECTORS: (l. to r.) Robert G. Dunlop, president; Paul E. Taliaferro, deputy chairman of the board; J. Howard Pew, chairman of the board.

J. Howard Pew
CHAIRMAN, BOARD OF DIRECTORS

Paul E. Taliaferro
DEPUTY CHAIRMAN, BOARD OF DIRECTORS

Robert G. Dunlop
PRESIDENT

Philadelphia, Pa.
February 17, 1969





Gains in Revenues, Net Income Achieved

THE 1968 NET INCOME of Sun Oil Company and subsidiaries rose to \$164,430,000 on revenues of \$1,801,211,000. This was a gain of more than 5 per cent over the \$156,145,000 earned on revenues of \$1,740,885,000 in 1967.

These results include the operations of Sunray DX Oil Company which was merged into Sun on October 25, 1968. All 1967 figures are restated to reflect the conforming of accounting policies of the two companies.

Assuming a full year's deduction of \$2.25 per share for dividends on Sun preferred stock, the 1968 earnings were equivalent to \$4.59 on each of the 26,777,443 full shares of common stock outstanding at year-end. Restated net income for 1967 was equal to \$4.28 on each of the same number of shares.

Cash Dividends Rose. Cash dividends paid during the year amounted to \$25,208,000 on Sun common, at the rate of 25 cents per share quarterly; \$20,778,000 on Sunray DX common prior to the merger; and \$9,490,000 on Sun preferred after the merger.

In addition, a six per cent stock dividend declared on Sun common resulted in the distribution of 1,539,879 shares to stockholders in late December.

Firm prices, gains in sales volumes of refined products, and effective control of costs all contributed to the improved earnings.

Offsetting the gain in part, however, were rising taxes and the loss experienced by Great Canadian Oil Sands after its plant became commercially operational in October.

Total costs and expenses advanced by some \$52,000,000 with higher operating costs and general expenses accounting for approximately half of the increase. Taxes paid or accrued by the Company, including income taxes, climbed by 10 per cent, or approximately \$14,000,000, to a total of \$154,947,000.

Financial Position Sound. The Company closed the year in a favorable financial position with current assets of \$580,621,000, which were almost double current liabilities. A substantial drop in short term investments was in part offset by an increase in short term accounts and notes receivable. Crude oil and refined product inventories rose by \$24,300,000, primarily reflecting a build-up in product stocks. Attention will be given in 1969 to assuring that product inventories are maintained at a level commensurate with market demand.

Notes receivable from the sale of Avisun Corporation pushed long term accounts and notes receivable up sharply to \$102,573,000.

Current liabilities rose by more than \$6,700,000 due to a rise in notes and bonds payable, while long term debt declined slightly to \$408,656,000.

Total capital outlays for expansion and modernization amounted to \$268,596,000, with an additional \$54,898,000 spent on drilling to develop new reserves of oil and gas. Together these expenditures were some \$10,400,000 less than the comparable 1967 total.

The effective use of funds invested in recent years is reflected in the following sections of this Report covering 1968 operating achievements. As a result of these gains, the Company moved into 1969 from a position of strength, with modernized physical facilities and the financial capability to move ahead with additional expansion projects.



DIRECTORS: (l. to r.) Joseph T. Wilson, Jr., secretary-treasurer; R. Paul Henry, senior vice president for Finance and Planning in the DX Division; Donald P. Jones, vice president and merger manager; and Joseph R. Layton, comptroller.

Computers served Sun in many new ways during 1968. One was the Corporate Financial Planning Model for immediate projection of the impact of investment and other decisions on operations.



Production Hit Peak, Offshore Search Widened

SUN'S 1968 EXPLORATION and production operations were marked by record output of both liquids and natural gas, by extension of the search for oil abroad and by growing emphasis on offshore operations.

Despite peak production, the Company posted gains in reserves of liquids in North America and abroad. Gas reserves, however, did not keep pace with production.

The year was highlighted by discoveries off the coasts of California, Louisiana, Texas and New Guinea. Meanwhile, development drilling and installation of production handling facilities moved ahead in the North Sea, Persian Gulf, and Venezuela's Lake Maracaibo.

Oil Search Extended. Looking to the future, Sun participated in extensive geophysical surveys in many new areas world-wide. Also, the Company agreed with associates to begin in 1969 exploring 6.5 million acres in the Arctic Islands. Far North acreage was added in Alaska, including the North Slope, and in the MacKenzie Delta area of Canada.

The 1968 successes helped boost production of crude oil and condensate in the U.S. and Canada to 215,700 barrels daily, with 47,600 barrels daily of processed natural gas liquids bringing the total to 263,300 barrels daily. Venezuelan production rose slightly to 113,400 barrels daily.

Domestic Exploration Successes. Domestically, the Company registered significant offshore successes in the Santa Barbara Channel off California, in the Main Pass and Ship Shoal areas off South Louisiana, and off the upper Texas coast where the first test of 39 blocks held by Sunoco and associates found gas. The DX Division also acquired three leases off Texas with other partners. Multi-well platforms for developing the offshore California and Louisiana areas are being constructed.

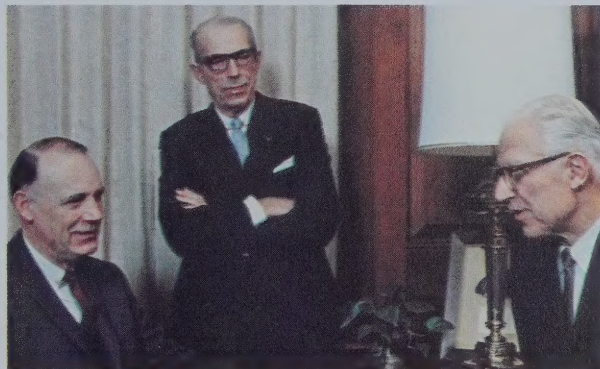
On land, the Sunoco Division drilled or participated in gas discoveries in deep drilling in the Delaware Basin of West Texas, in the North Murdock Pass Field on Padre Island along the South Texas coast, in the Arrowhead Ranch area near the Rio Grande, and in Freestone County of East Texas.

Oil was found in Caddo, Grady and Texas Counties of western Oklahoma; the Krotz Springs Field in South Louisiana; the South Shamburger Lake Field of Smith County and the South Rusk area of Cherokee County, East Texas; Starr County in South Texas; and central Alberta, Canada. Sunoco also participated in discovering oil in the Hunter Ranch and Gas Draw Fields in northeast Wyoming in the extensive "Muddy play".

The DX Division discovered the North Steedman Field, Pontotoc County, Oklahoma, where there now are 11 new wells. It made two discoveries in the Virgo area of northwest Alberta as operator for a group, and participated in a Zama Field area discovery.

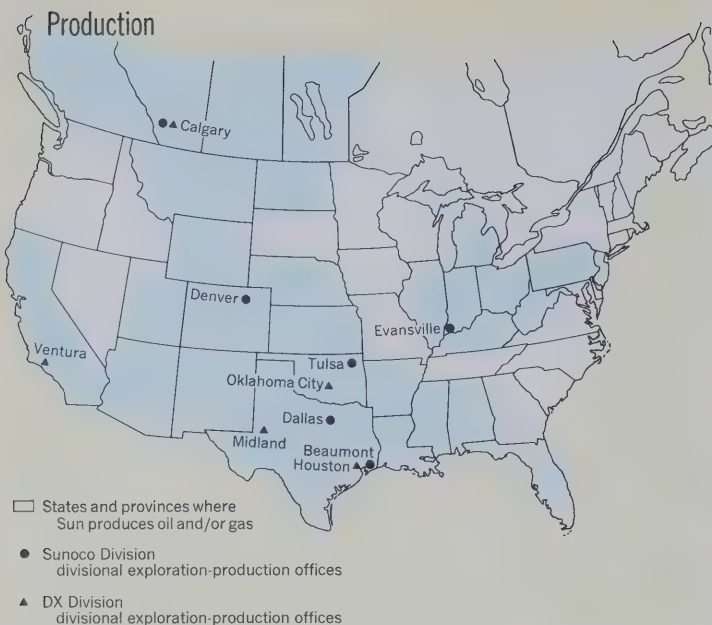
Both Divisions conducted development programs in numerous areas, including addition by Sunoco of 10 wells in the multi-zone Fordoche Field of South Louisiana.

Numerous new compressor and processing facilities for natural gas have been added, and many other installations have been improved or enlarged to utilize increasing natural gas production. A plant capable of extracting 200,000 gallons of LPG products per day was



DIRECTORS: (l. to r.) D. W. Ferguson, executive vice president, in charge of Sunoco Division; Walter C. Pew; and R. E. Foss, executive vice president, in charge of DX Division.

DX Division drilled eight exploratory wells to evaluate reserves in the Santa Barbara Channel. A multi-well platform is under construction for development drilling.



started in the Fordoche Field in Louisiana.

Natural gas producers continued to face serious problems resulting from federal regulation. Several decisions costly to them were made by the government.

Operations Expanded Abroad. Venezuelan Sun Oil Company helped boost production and reserves with 19 successful wells drilled for itself and associates. Gas utilization facilities designed to recover 571,000 gallons of natural gas liquids daily are scheduled for completion in 1969 in Lake Maracaibo.

Iranian Sun Oil Company and associates brought the Sassan Field in the Persian Gulf into production late in the year after drilling the final two development wells and completing facilities to handle 200,000 barrels of oil per day. An 88-mile pipeline was laid to the Lavan Island terminal, where there is storage capacity of 3,000,000 barrels. The group, in which Sun

holds a 12½ per cent interest, also drilled three exploratory wells. Two were dry and one found a field not yet proven commercial.

Also in the Persian Gulf, development drilling began in the Fateh Field off Dubai, in which Dubai Sun Oil Company owns a 5 per cent interest. This field is expected to produce 100,000 barrels per day when developed.

In the British North Sea, a group in which North Sea Sun Oil Company has a 23⅓ per cent interest drilled eight development wells from a single platform in the Hewett Field. This field is expected to come on stream in mid-1969 with initial delivery of 70 million cubic feet of gas per day, increasing to 600 million after six years. The group also drilled five exploratory wells during 1968, one extending the Leman Bank Field.

Australian Sun Oil Company drilled three dry exploratory wells, two of which were to earn an interest in acreage in Queensland.

Argentine Sun Oil Company, as operator for a three-company group, conducted a seismic program on an offshore concession secured from Argentina in 1968.

The DX Division's foreign operations were highlighted by participation in two natural gas discoveries in the Gulf of Papua off the coast of New Guinea. DX holds a 25 per cent interest.

DX is the operator, with a 50 per cent interest, in a 702-square-mile concession in Brunei on the island of Borneo. An organization has been established to conduct an exploratory program.

During 1968, DX as operator for a three-company group completed a seismic survey on the offshore portion of a 14½ million-acre concession in Mozambique, Africa.

In Venezuela, where DX owns interests of from 5 to 17.26 per cent in three blocks, compression and injection of produced gas started on Block 17 in Lake Maracaibo to increase current production rates and improve ultimate recoveries. A liquid extraction plant there is expected to go on stream in mid-1969.



DIRECTORS: (l. to r.) Kingsley V. Schroeder, vice president for Production, Sunoco Division; and John H. Douma, senior vice president for Extractive Operations, in DX Division.

Processing plant rising above Lake Maracaibo will connect with shore plants 40 miles away in gas utilization program.

Search for oil and gas will reach into frigid Arctic Islands with geophysical survey scheduled to get under way in 1969.



polymethyl benzenes. Durene and mesitylene are the two most important compounds to be produced initially.

A new paraxylene unit placed in operation at Corpus Christi increased the production capacity for this chemical by more than 100 million pounds per year. Production of cumene at Corpus Christi was increased by 50 per cent.

At the Sunoco Division's Toledo refinery, availability of higher-purity hydrogen and additional feedstocks enabled the naphthalene plant to produce at a record level.

Toledo Modernization Completed. The year at Toledo was highlighted by the completion and start-up of the new \$50 million hydrocracker complex.

The complex comprises two gasoline plants—a hydrocracker and a catalytic reformer—and a hydrogen plant. A supervisory computer will monitor operations of the hydrocracker complex and collect data.

Two continuous in-line blending systems were put into operation at Toledo. The first blends a finished 260-grade gasoline as the components come from the refinery units. The second system blends heavy fuel oil components in the proper proportions so that the various grades can be delivered directly to tank trucks without intermediate storage.

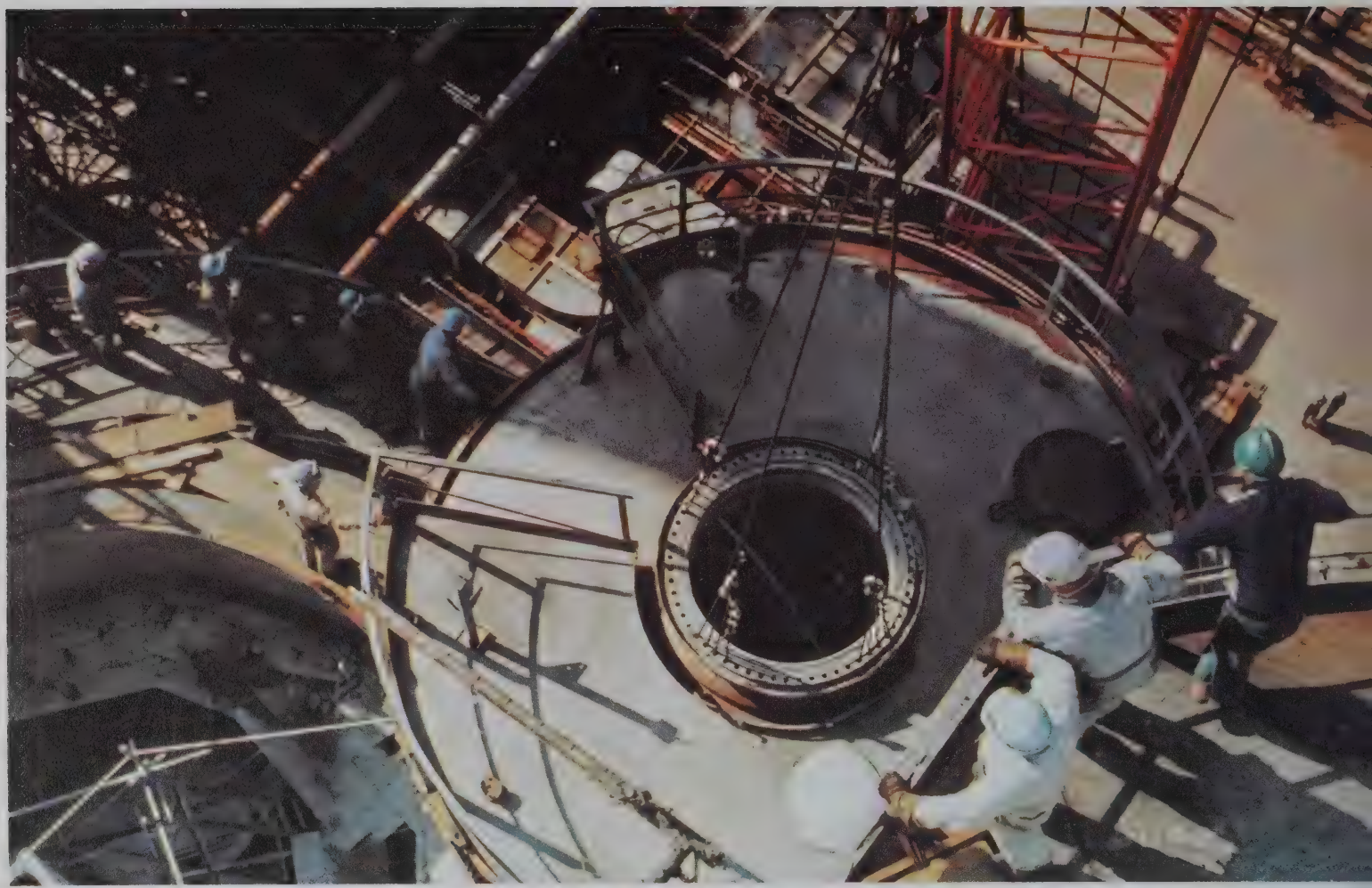
New Reformer on Stream. At the Marcus Hook refinery, a new catalytic reformer for high-octane gasoline production was completed and placed on stream. Built at a cost of \$9 million, the plant processes 10,000 barrels a day of light naphtha.

Operating the new reformer, as well as several other units of the 17 Plant complex, will be a direct digital computer (DDC) now being put into service. With DDC, plant personnel will be able to maintain much closer control over the complex operations. As the name suggests, the computer will directly control the valves regulating the operation of the plant. The DDC will scan some 900 process variables at rates up to 5,000 per second and any conditions

New refinery near Monrovia, Liberia, went on stream at year-end. It will process 10,000 barrels of crude daily to provide wide range of products for Liberia's needs.







which vary outside the specified limits will be reported and corrected.

Other projects at Marcus Hook included a modernization of the fluid catalytic cracking unit with installation of stainless steel parts in the catalyst regenerator. Also, a new compressor was installed to provide the huge quantities of air needed for the regeneration process.

The Tulsa refinery unveiled its highly-automated lubricating oil blending and packaging complex early in 1968. The plant can handle 90 million gallons of oil annually.

At Sarnia, plans were announced for a \$700,000 unit designed to remove sulfur from refinery gases. The project reflects Sun's interest in control of potential air pollution.

Liberian Refinery in Operation. The DX Division's international operations were strengthened significantly in 1968 when the 10,000 barrels a day refinery in Liberia, West Africa, went on stream. Sun owns a 67 per cent interest. Located near Monrovia, Liberia's capital city, the \$15 million plant is manufacturing a wide range of oil products.

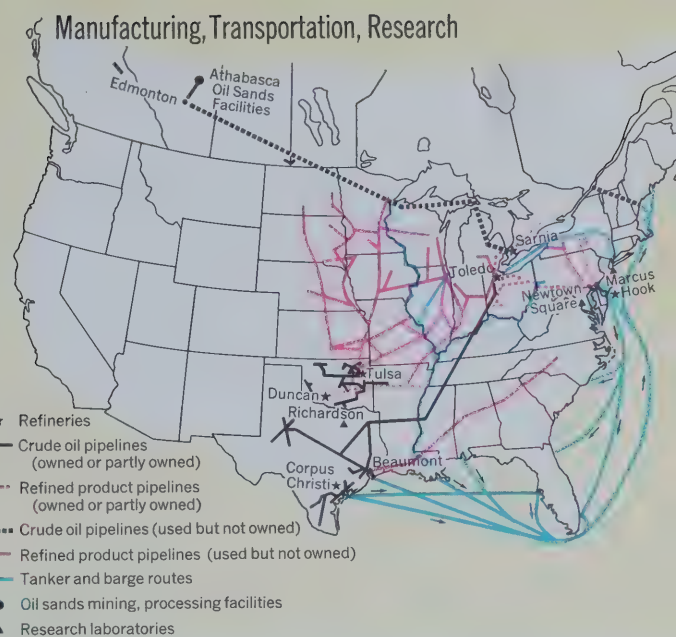
Groundbreaking for Puerto Rico Sun Oil Company's core crude unit and lubricating oil plant at Yabucoa took place in February, 1969. The units are expected to be in operation in 1971. Dredging of an all-weather harbor is the first phase of the project.

Red Barn Chemicals, Inc., a wholly owned subsidiary, revamped its fertilizer granulation plant at Freeport, Texas to improve the manufacturing process and achieve greater efficiency. At Houston, a new plant was completed for blending liquid food supplements used in the cattle industry.

Fertilizer Plant Announced. In September, the DX Division announced plans to build a \$5.6 million fertilizer plant on the Caribbean Island of Martinique and a packaging installation and warehouse on Guadeloupe. To be completed by late 1970, the plant will have a capacity to produce 100,000 tons of granulated fertilizer annually.

View from the top shows catalyst regenerator at Marcus Hook's 10-4 cracking plant during modernization work late in 1968.

New computer at Marcus Hook refinery's 17 plant gasoline and petrochemical complex will control valves regulating three units.



SunOlin Chemical Company, a 50 per cent owned Sun affiliate in Claymont, Del., recorded substantial increases in sales and operating revenues in 1968. Net income declined slightly due to higher taxes and decreases in the selling prices of urea and ethylene oxide. Record production levels of carbon monoxide and ethylene oxide were achieved, and expansion projects moved toward completion in 1970.

Transportation Expanded, New Tanker Being Built

THE COMPANY'S continuing expansion was reflected in 1968 transportation developments of both the DX and Sunoco Divisions.

Now under construction at Sun Shipbuilding & Dry Dock Company is an 80,000 deadweight



DIRECTORS: (l. to r.) Charles L. Boyle, who retired as a director and Sunoco Division vice president for Transportation at year-end; and Jack A. Collins who succeeded him.

ton tanker to be named the *S. S. America Sun*. Set for delivery in the second half of 1969, the ship will have the latest in remote controlled cargo handling equipment to reduce unloading time.

The *M. V. Toledo Sun*, a self-propelled barge, joined the fleet in November. Carrying 38,000 barrels of petroleum products, it will operate out of Newark, N.J., to ports in New York and New England in winter months. In summer, it will operate from Toledo, Ohio, to ports in the Great Lakes and upper New York via the New York State Barge Canal.

River Terminals Completed. Two new highly automated product terminals were completed on the Ohio River in 1968 for the DX Division at a cost of \$1.4 million. The terminals are located at Louisville and Henderson, Ky. The Company now will be able to deliver gasolines and distillates, produced at the Tulsa and Duncan, Okla., refineries, by pipeline to a Mississippi River terminal at West Memphis, Ark., and then by barge to the new terminals on the Ohio River.

During 1968, the Product Lines Department of Sun Pipe Line Company constructed 13 miles of 8-inch line in Michigan, increasing the system's throughput capacity and providing greater flexibility in operations.

Sun Ship Recorded Busy, Profitable Year

A high level of operations in 1968 enabled Sun Shipbuilding & Dry Dock Company to sustain the improved profit performance of 1967.

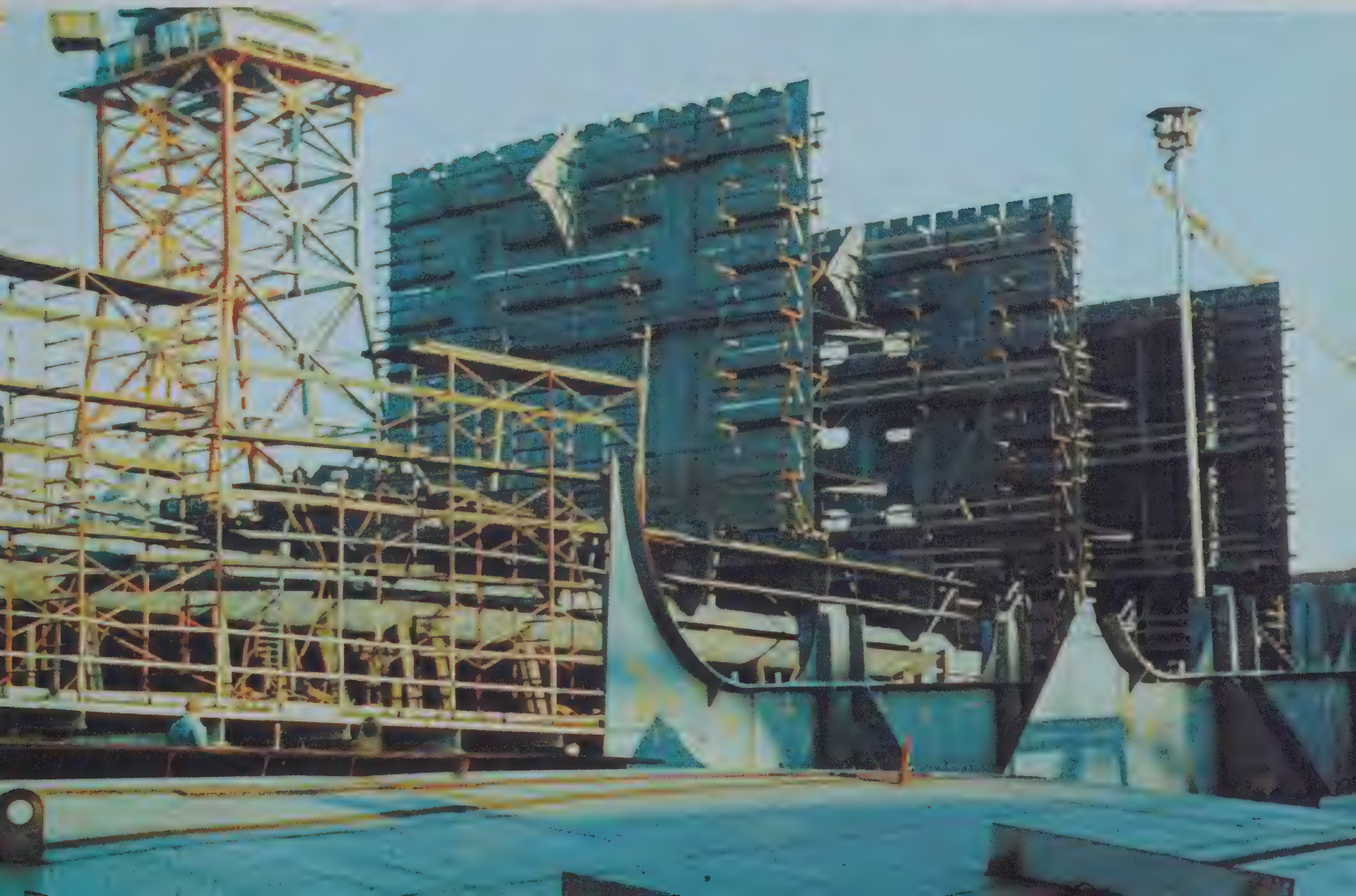
The shipyard delivered four of six fully containerized cargo vessels for U.S. Lines, and the world's largest and fastest roll-on/roll-off trailership for Transamerican Trailer Transport. Work is proceeding on the additional two ships for U.S. Lines and on two 80,000 deadweight ton tankers, one for Sun Oil Company.

Other work for 1969 includes two new large tankers and conversion of the tanker *S.S. Manhattan* to an ice-breaker. The *Manhattan* will be used in a test program to determine if the northwest passage above Canada can be used for moving oil produced on Alaska's North Slope to the Atlantic.



Toledo hydrocracker complex completed in mid-year will enable refinery to convert 80 per cent of crude input into gasoline.

New 80 000 deadweight ton tanker taking shape here on Sun Ship ways will feature most modern cargo handling equipment.







Connections were made in 1968 at Cleveland and Hudson, Ohio, with the Inland Corporation system, in which Sun is a part owner. In addition to providing alternate routes, these connections make available additional pipeline capacity for moving product eastward from the Toledo Refinery.

Pipeline Shipments Up. Production gathered by the Crude Lines Department of Sun Pipe Line Company during 1968 increased 3 per cent over 1967 to 49,900,000 barrels. Trunk-line shipments of crude also showed a small increase over the 1967 level.

New Sun Station facilities, which will provide for an increased ship loading rate of 45,000 barrels an hour to reduce tanker time in port, were completed in the first quarter of 1969.

Completion in September of Capline, a 40-inch crude oil pipeline, made available to Mid-Valley Pipeline Company an additional throughput capacity of 38,000 barrels per day. Mid-Valley, a Sun affiliate, owns a nine per cent interest in Capline which extends from Louisiana to Illinois.

Sales at Record High, Interstate Outlets Added

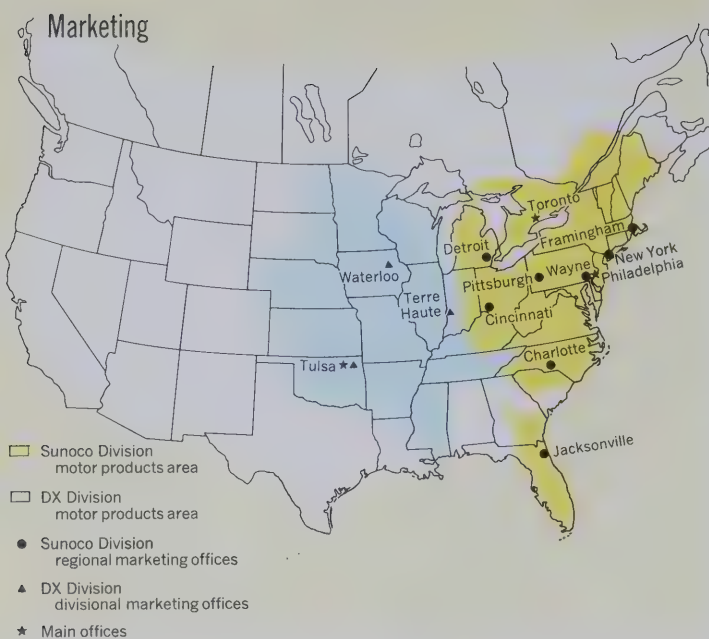
MAJOR MARKETING EFFORTS in both the Sunoco and DX Divisions during 1968 were directed toward expansion of operations and facilities. New records were set in sales and station construction. Concurrently, the Company broadened the use of its credit cards and stepped up construction of new outlets along the Interstate highway system.

Sales of refined products climbed to a record 538,500 barrels daily. Firm gasoline prices, successful promotional activities, rising sales of premium grades and penetration of new market areas all contributed to a sizable gain in revenues.

Service Stations Upgraded. The Company's ambitious program of service station construction was continued, while an increased emphasis was placed on the modernization of

Sunoco's landscaped, colonial-style service station in Fair Haven, N.J., won the community's first beautification award.

One of newest marketing concepts, DX Travel Mart service stations offer travelers variety of food and merchandise items.



existing outlets. A substantial investment was made during 1968 in improved stations designed for greater dealer profitability and customer acceptance.

Beautification efforts were stressed throughout the year. Among honors won by Company stations was the first Fair Haven, N.J., civic beautification award. A landscaping campaign in the Ohio Valley and New York regions was supported by several hundred dealers.

Substantial progress was made in enhancing the utility of Company credit cards. Sunoco credit cards now are honored at over 6,000 DX stations, while DX cardholders may receive credit at more than 10,000 Sunoco facilities. In addition, a Sunoco Selected Motel program was initiated to provide customer credit at nearly 800 fine motels and motor inns. Included in the program are some 200 Ramada Inns, a motel chain stretching from coast to coast.

Interstate Operations Expanded. An aggressive Interstate service station building program increased the Company's share of the gasoline market along the Interstate system. Construction of new Interstate outlets will be accelerated in 1969 to provide Sun customers with a greater number of convenient locations.

Sunoco inaugurated a new program in connection with its Interstate marketing effort. Introduced in the Ohio Valley marketing area, innovations included a Sunoco inspection cruiser, new uniforms for dealers and service station beautification projects.

The DX Division tested service station-restaurant tie-ins by building three Chez Bon restaurants at strategic locations along Interstate 80, the primary east-west artery through Iowa and Nebraska. A number of the new DX Interstate outlets were TravelMart stations featuring a variety of merchandise.

The Sunoco Division re-designed the face of its Custom Blending pump to help customers choose the right gasoline blend for their cars. This was done by correlating numerically-designated Sunoco blends with the familiar "Regular" and "Premium" designations.

Sales Records Set. For the fifth consecutive year, Sunoco sales of tires, batteries and auto accessories (TBA) climbed to record levels. A new wide-belt G/P (glass polyester) tire was added to the TBA product line early in 1969.

Newspaper, radio, and television advertising campaigns contributed to increased sales as product advertising was stepped up in all media.

Sales of industrial products in both the Sunoco and DX Divisions surpassed the record levels reached in 1967. Sunoco's gain was sparked by continued penetration of the motorized fleet market.

Liquefied petroleum gas sales continued to grow as the DX Division purchased three independent LP-Gas companies. DX is now the largest retail LP-Gas marketer in Mississippi, and second largest in Arkansas.

An expanded racing program demonstrated the high quality of Sunoco 260 and attracted new customers in the rapidly growing youth market. DX also recorded a successful year in racing.

Subsidiaries Expanded Operations. Sun Oil Company Limited posted an increase of more than eight per cent in its Sunoco gasoline sales in eastern Canada, surpassing the average increase for the industry. Service station expansion continued, substantial gains were posted in sales of lubricants and TBA items, and good progress was made in controlling rising costs.

The 1,100 Service Stations in
 Ontario - Quebec.



Sunoco Cars Win Trans-Am, USRRC

In the 13-race Trans-American sedan series, Mark Donohue swamped the competition, driving a Sunoco Camaro to 10 victories to clinch the 1968 Manufacturers' Trophy for Chevrolet.

Donohue also captured the eight-race U.S. Road Racing Championship. Piloting the Sunoco Special, a Group 7 McLaren-Chevy, Donohue scored five wins to take the USRRC title for the second consecutive year.

In the six-race Canadian-American Challenge Cup series, Donohue, driving a Sunoco Special, scored an impressive win at the Bridgehampton, Long Island, circuit. He finished third in the series, and was the highest-placed American entrant for the third year in succession. In all races, these Roger Penske-owned cars were fueled with Sunoco 260, the world's highest octane pump-grade gasoline.

British Sun Oil Company Limited, Netherlands Sun Oil Company and Sun Oil Company (Belgium) S.A. reported sales gains in lubricating and specialty oils. Sun Oil International, Inc., a wholly-owned subsidiary handling sales and distribution of crude oil and petroleum products in international markets, continued to expand operations in 1968.

Red Barn Chemicals, Inc., a producer and seller of agricultural chemicals, completed a major reorganization in 1968. The move streamlined all marketing operations and introduced the concept of a commission-operated retail store.

Process Research and Computer Use Stressed

SUN'S CONTINUING PROGRAM to find new uses for petroleum, upgrade existing products, improve processing techniques and develop new computer applications recorded significant advances in 1968. At the same time, Company researchers moved ahead with studies designed to improve oil finding and recovery techniques.

Development of the lubricating oil process and design of the two plants and a harbor for

Sun's racing program proved high quality of Sunoco 260 gasoline as driver Mark Donohue scored 16 major road race victories.



the \$115-\$125 million Puerto Rico undertaking comprised the largest single project in Research & Engineering in 1968. The first-of-its-kind lubricating oil plant, combining solvent extraction and hydrocracking, will produce superior, high performance oils with excellent viscosity-temperature characteristics.

The use of Sun's technology by Power Cables Pvt. Ltd. for the first production in India of electrical oils was brought to the point of realization. Sun assigned personnel to assist in construction and start-up, and specification grade electrical oils are now in commercial production. Total royalties to Sun over the years are expected to exceed \$1 million.

During 1968, Sun adopted a method of gasoline octane rating which closely correlates with actual road tests performed on a representative number of cars. Studies show that the use of road octane rating will provide greater flexibility in blending gasoline, and better matching of gasoline to car requirements, while achieving cost savings. Also, new specifications were developed to match fuels more closely to climates where they are sold.

Product Improvement Stressed. New and more effective formulations of motor oils, including the new Sunoco Special 10W40, automatic transmission fluid, grease, wax, metal-working and electrical oils and industrial lubricants were devised to meet customers' needs better.

In particular, an improved wheel-bearing grease was developed for automobile manufacturers; a new grease was formulated for the textile industry; antileak gear oils were upgraded to increase storage stability, extreme pressure performance, and oxidation resistance; and grinding oils were developed for use on a wide range of metals including titanium.

Additional patents were issued in 1968 which brought the total number in force to about 3,000.

Computers came into increasing use in a variety of activities during 1968. In Engineering, for example, computer programs have been

established to expand the designer's opportunities to consider various alternatives in developing a new refinery unit.

The Automated Drafting System (ADS), a computer program which prepares drawings of piping, was licensed to six companies during the year, realizing additional income for Sun. A new program to prepare structural steel drawings was completed for major components such as beams and columns and is now being expanded for other structural components.

A mathematical model of the GCOS project was devised to simulate the characteristics of the tar sand deposits and the interactions of all mining and processing components. The model assists management in making economic and operating decisions.

Studies of supply and demand logistics were aided by a new five-refinery computer model of the Company combining the operations of the Sunoco and DX Divisions, with the accompanying product distribution system.

Production Research Expanded. Production Research and Development initiated a new planning and control system for each of the major segments of research, and coordinators were designated for each Production Department division to handle the critical liaison between operations and research.

A number of computer systems for geological data processing were either completed or under development during the year. Emphasis also was



DIRECTORS: (left) Jno. G. Pew, retired Sun Oil Company senior vice president; (right) Chalmer G. Kirkbride, vice president for Research and Engineering in the Sunoco Division.

Sunoco hostess helped dealers stress good housekeeping and courtesy to motorists.

Reduction in automobile exhaust emissions is goal of Marcus Hook research program.

Training programs helped to upgrade skills of employees throughout the Company.

given to defining, locating and ranking coal deposits relative to their liquefaction potential.

A Geophysical Research Department was organized for the laboratory at Richardson, Texas, with three sections—Seismic, Gravity and Magnetism, and Instrumentation.

Recovery Methods Studied. In Mathematical Research, reservoir simulation work was directed toward applications, development and extension of existing models. A three-dimensional, three-phase model was used to complete studies of the planned gas injection project in Lake Maracaibo.

Application of heat for stimulation of production continued to be studied by Recovery Research, with work continuing successfully on thermal recovery projects in northern Louisiana and South Texas. Also, feasibility of *in situ* combustion was studied for the Athabasca Tar Sands in Alberta.

Employee Training and Development Broadened

IN RESPONSE TO the Company's expanding operations and growing managerial needs and the increasing demands on the capabilities of its men and women, manpower planning and development was stressed in 1968.

To strengthen its capacity for effectively filling key jobs in the future, the Sunoco Division established a Corporate Manpower Planning and Development Committee and initiated a manpower audit. The DX Division implemented on a division-wide basis an Individual Development Program designed to identify high-potential employees and create development plans for each.

Training Programs Offered. Additional opportunities for employee development were provided by in-Company programs.

In the DX Division, these included seminars and courses on supervision, computer concepts, decision-making and cost management. Among

Sunoco Division activities were courses in supervisory techniques and technical training.

Educational assistance plans were operative in both Divisions, providing substantial financial aid to some 1,000 employees who elected to continue their education. Twelve more National Merit Scholarships for children of employees were sponsored by the Sunoco Division, and at the start of 1969 participation in the program was extended to children of DX employees. Under a separate plan, two additional scholarships for outstanding black students were awarded through the Sun Achievement Scholarship Program.

Aid to Education. In recognition of its responsibility for helping to strengthen higher education, the Company continued to aid colleges and universities. The Sunoco Division provided assistance to 41 schools through fellowships, grants of money and equipment, and scholarships. Under its matching gifts program, the DX Division aided 45 schools by matching 130 employee gifts.

Expanded activities by both Divisions in the hiring of members of minority groups included participation in the National Alliance of Businessmen's JOBS program.

Training to acquaint those who supervise and work with the disadvantaged with the special problems of these people was initiated.

Benefits, Wages Improved. Benefit plan improvements during the year included the liberalizing of Sunoco's retirement plan, and the extension of benefits to some subsidiaries not previously covered. The DX Employees Savings Plan and the Sunoco Employees Stock Purchase Plan continued with high rates of employee participation and substantial returns.

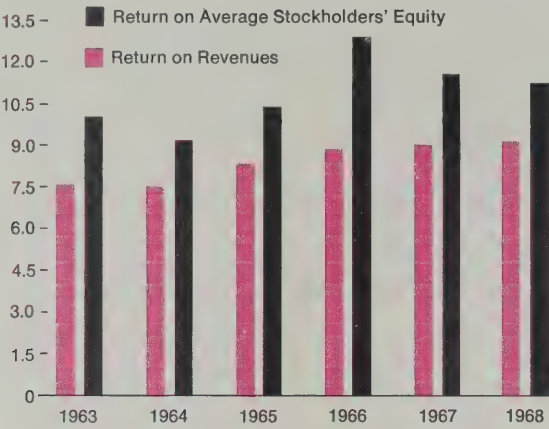
Wage and other bargaining continued to reflect a recognition of broad common interests. A six per cent wage increase was effective on December 1, 1968, for most employees subject to the Federal wage and hour laws, although negotiations with several associations were still under way in early 1969.

Financial and
Statistical Section
1968 Annual Report
Sun Oil Company



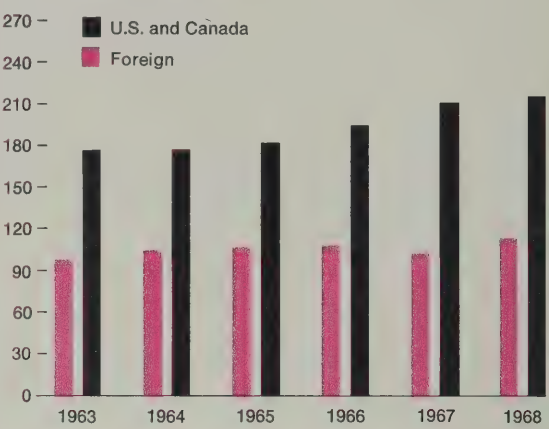
**Return on Revenues and
Average Stockholders' Equity**

15.0 - Per Cent



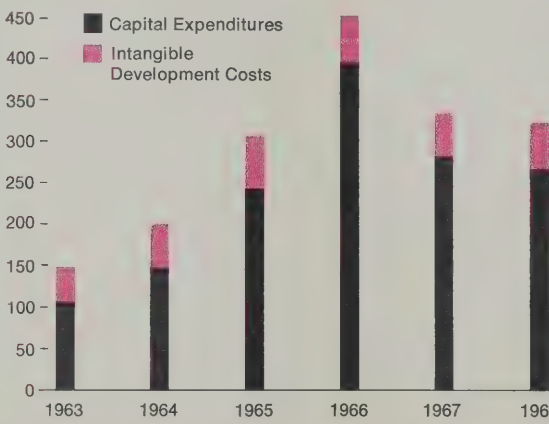
**Net Production of Crude Oil
and Condensate**

300 - Thousands of Barrels per day



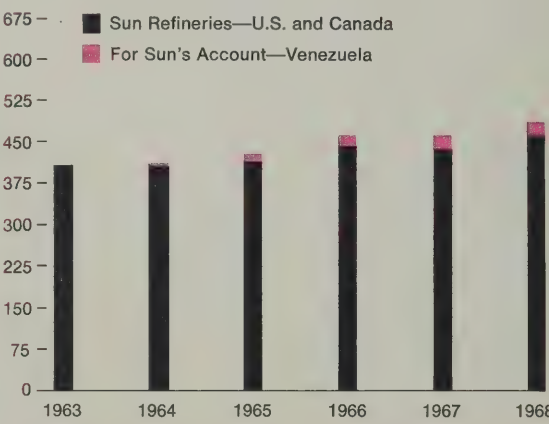
**Capital Expenditures and
Intangible Development Costs**

500 - Millions of Dollars



Crude Oil Refined

750 - Thousands of Barrels per day



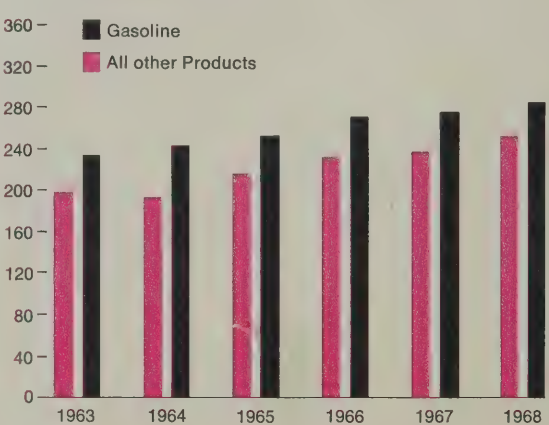
Taxes, Wages and Benefits

750 - Millions of Dollars



Refined Product Sales

400 - Thousands of Barrels per day





Consolidated Statement of Income and Earnings Employed in the Business

SUN OIL COMPANY AND SUBSIDIARIES

	<i>For the Years Ended December 31</i>	
	1968	1967
REVENUES		
Sales and Other Operating Income	\$1,778,183,000	\$1,710,573,000
Other Income	23,028,000	30,312,000
	1,801,211,000	1,740,885,000
COSTS AND EXPENSES		
Costs and Operating Expenses	1,091,664,000	1,071,289,000
Selling, General and Administrative Expenses	209,967,000	197,325,000
Taxes, including Income Taxes	154,947,000	140,833,000
Intangible Development Costs	54,898,000	52,700,000
Depreciation, Cost Depletion and Retirements	110,554,000	105,900,000
Interest and Debt Expense	16,170,000	16,611,000
Minority Interest	(1,419,000)	82,000
	1,636,781,000	1,584,740,000
INCOME BEFORE EXTRAORDINARY ITEMS	164,430,000	156,145,000
EXTRAORDINARY ITEMS		
Gain on Sale of Avisun Corporation, net of taxes	22,432,000	—
Pre-Operating Expenses of Great Canadian Oil Sands		
Limited and Reserve for Losses in Foreign Operations ..	(22,432,000)	—
NET INCOME	164,430,000	156,145,000
EARNINGS EMPLOYED IN THE BUSINESS		
AT JANUARY 1, AS PREVIOUSLY REPORTED		
Sun Oil Company		142,801,000
Sunray DX Oil Company		382,001,000
Adjustment to conform accounting policies		(135,155,000)
EARNINGS EMPLOYED IN THE BUSINESS		
AT JANUARY 1, AS RESTATED	410,104,000	389,647,000
CASH DIVIDENDS		
Sun Oil Company—Preferred Stock	9,490,000	—
—Common Stock	25,208,000	23,851,000
Sunray DX Oil Company—Common Stock—before merger ..	20,778,000	26,288,000
STOCK DIVIDENDS		
Sun Oil Company Common Stock		
1968—6%—1,539,879 shares	107,792,000	85,549,000
1967—5%—1,222,126 shares		135,688,000
	163,268,000	
EARNINGS EMPLOYED IN THE BUSINESS		
AT DECEMBER 31	\$ 411,266,000	\$ 410,104,000
Net Income per Common Share Outstanding at December 31,		
1968 After Assuming a Full Year's Dividend Requirements		
on Preferred Stock	\$4.59	\$4.28
Net Income per Common Share Outstanding at December 31,		
1968 and Assuming Full Conversion of Preferred Stock ...	\$4.16	\$3.95

(See Accompanying Notes)



Consolidated Statement of Financial Position

SUN OIL COMPANY AND SUBSIDIARIES

ASSETS

At December 31

	1968	1967
CURRENT ASSETS		
Cash	\$ 60,308,000	\$ 59,476,000
Short-Term Investments, at cost	29,101,000	83,777,000
Accounts and Notes Receivable	285,733,000	263,894,000
Crude Oil and Refined Products	166,759,000	142,413,000
Materials and Supplies	30,553,000	32,180,000
Work in Process	8,167,000	19,571,000
Total Current Assets	580,621,000	601,311,000
LONG TERM RECEIVABLES AND INVESTMENTS		
Accounts and Notes Receivable	102,573,000	46,535,000
Investment in Affiliated Companies	24,660,000	34,891,000
Other Investments, at cost	20,577,000	20,775,000
	147,810,000	102,201,000
PROPERTIES, PLANTS AND EQUIPMENT		
Production	999,114,000	916,119,000
Manufacturing	621,083,000	637,003,000
Marketing	566,626,000	495,653,000
Transportation	195,816,000	187,541,000
Mining	242,795,000	238,377,000
Shipyards	36,977,000	36,295,000
Administrative and Others	21,680,000	19,346,000
	2,684,091,000	2,530,334,000
Less Depreciation and Depletion	1,118,453,000	1,062,727,000
	1,565,638,000	1,467,607,000
PREPAID AND DEFERRED CHARGES		
Pension Costs	43,657,000	26,553,000
Excess of Cost of Investments in Subsidiaries over Equities in Net Assets Acquired	7,265,000	11,687,000
Other	17,612,000	15,390,000
	68,534,000	53,630,000
TOTAL ASSETS	<u>\$2,362,603,000</u>	<u>\$2,224,749,000</u>

(See Accompanying Notes)

SUN OIL COMPANY AND SUBSIDIARIES

LIABILITIES AND STOCKHOLDERS' EQUITY

	At December 31	
	1968	1967
CURRENT LIABILITIES		
Accounts Payable and Accrued Liabilities	\$ 193,848,000	\$ 193,252,000
Notes and Bonds Payable	28,347,000	21,253,000
Taxes, other than Income Taxes	42,905,000	40,329,000
Income Taxes	44,280,000	47,782,000
Total Current Liabilities	309,380,000	302,616,000
LONG TERM DEBT	408,656,000	410,804,000
DEFERRED CREDITS		
Income Taxes	70,561,000	37,299,000
Sales of Properties and Future Oil Production	48,334,000	61,132,000
Other	6,570,000	6,949,000
	125,465,000	105,380,000
MINORITY INTEREST	152,000	6,400,000
STOCKHOLDERS' EQUITY		
Preferred Stock, \$2.25 cumulative convertible, stated value \$5 per share (aggregate involuntary liquidation value \$960,024,000)		
Authorized - 19,000,000 shares		
Issued, 1968- 18,499,530 shares	92,498,000	
Issued, 1967- 18,462,005 shares		92,310,000
Common Stock-Par Value \$1 per share		
Authorized -100,000,000 shares		
Issued, 1968- 27,204,688 shares	27,205,000	
Issued, 1967- 25,664,741 shares		25,665,000
Capital in Excess of Par or Stated Value	1,008,122,000	892,810,000
Earnings Employed in the Business	411,266,000	410,104,000
	1,539,091,000	1,420,889,000
Less Common Stock Held in Treasury, at cost		
1968-427,148 shares	20,141,000	
1967-546,593 shares		21,340,000
Total Stockholders' Equity	1,518,950,000	1,399,549,000
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$2,362,603,000</u>	<u>\$2,224,749,000</u>

(See Accompanying Notes)



Consolidated Statement of Changes in Capital Stock

SUN OIL COMPANY AND SUBSIDIARIES

CAPITAL STOCK, DECEMBER 31, 1967, AS PREVIOUSLY REPORTED	Number of Shares	Preferred	Common (Thousands of Dollars)	Capital in Excess of Par or Stated Value	Common Held in Treasury
Sun common, issued	25,664,741	\$ —	\$905,987	\$ —	\$ —
Sun common held in treasury	546,593	—	—	—	21,340
Sunray common, issued	18,462,005	—	18,462	87,977	—
Sunray common exchanged for Sun preferred	18,462,005	92,310	(18,462)	(73,848)	—
Sun common changed from no par value to par value \$1 per share	—	—	(880,322)	880,322	—
Merger expenses	—	—	—	(1,641)	—
DECEMBER 31, 1967, AS RESTATED	—	92,310	25,665	892,810	21,340
6% stock dividend	1,539,879	—	1,540	106,252	—
Treasury stock					
—6% stock dividend	24,352	—	—	—	—
—purchased	120,382	—	—	—	8,519
—contributed to pension fund	200,000	—	—	8,280	(5,383)
—used in acquisitions	59,826	—	—	—	(4,036)
—used for executive compensation plan	4,353	—	—	—	(299)
Employee stock options exercised	41,183	206	—	880	—
*Sunray treasury stock retired	3,558	(18)	—	(100)	—
Preferred converted to common at .689 ..	100	**	**	**	—
CAPITAL STOCK, DECEMBER 31, 1968					
Preferred, issued	18,499,530	\$92,498	—	\$1,008,122	—
Common, issued	27,204,688	—	\$ 27,205		—
Common held in treasury	427,148	—	—	—	\$20,141

*Held for issuance under Sunray incentive plan and included in prepaid and deferred charges at December 31, 1967.

**Dropped in rounding to thousands of dollars.

(See Accompanying Notes)

Accounting and Financial Notes

SUN OIL COMPANY and SUBSIDIARIES

Principles of Consolidation

The consolidated financial statements include the accounts of all significant subsidiaries owned more than 50 percent. The parent company's equity in the net assets of the consolidated subsidiaries at December 31, 1968, exceeded the cost of those investments by \$109,640,000, which amount is included in consolidated earnings employed in the business. Approximately \$279,423,000 of net assets at December 31, 1968, pertain to subsidiaries' operations outside of the United States, principally in Canada (\$194,227,000) and in Venezuela (\$34,252,000).

The financial statements also include Sun's equity in the undistributed earnings of the affiliated com-

panies in which it owns a proprietary half interest. The increase in such equity, amounting to \$705,000 in 1968 and \$3,610,000 in 1967, is included in other income.

Appropriate rates of exchange have been used to convert foreign currency statements to U. S. dollars. The conversion gains or losses, which are not significant, are included in consolidated income.

Accounting for Merger

Pursuant to the plan of merger approved by the stockholders of Sun Oil Company and Sunray DX Oil Company, Sunray was merged into Sun on October 25, 1968. On that date, the stockholders of Sunray received through an exchange of stock, on a share for share basis, Sun's newly authorized \$2.25 cumulative convertible preferred stock. For accounting purposes, the transaction has been treated as a "pooling of interests" and the accompanying financial statements include the accounts of Sunray for 1967 and the portion of 1968 prior to the merger date as though they had been a part of Sun throughout these periods.

Revenues and net income as previously reported for 1967 have accordingly been restated as follows:



Consolidated Statement of Source and Application of Funds

SUN OIL COMPANY AND SUBSIDIARIES

FUNDS WERE DERIVED FROM	For the Years Ended December 31	
	1968	1967
Operations:		
Net Income	\$164,430,000	\$156,145,000
Charges to Income not involving Working Capital:		
*Recovery of Capital (Depreciation and Retirements) ..	110,554,000	105,900,000
Deferred Income Taxes	33,262,000	11,127,000
Other	1,678,000	1,902,000
Funds Derived from Operations	309,924,000	275,074,000
Net Assets of Avisun Corporation Sold	52,545,000	—
Contribution of Treasury Stock to Pension Fund	13,663,000	15,853,000
Borrowings	40,431,000	86,709,000
Proceeds from Sale of Properties, Plants and Equipment ..	20,099,000	23,385,000
Reduction in Working Capital	27,454,000	—
Total Funds Available	\$464,116,000	\$401,021,000
FUNDS WERE USED FOR		
*Capital Expenditures	\$268,596,000	\$281,226,000
Cash Dividend Payments	55,476,000	50,139,000
Prepayment of Pension Costs	17,104,000	17,960,000
Purchase of Treasury Stock	8,519,000	8,931,000
Reduction of Prior Borrowings	42,558,000	19,631,000
Net Investment in Long-Term Receivables	49,272,000	6,939,000
Net Liquidation of Prior Sales of Properties and		
Oil Production	12,798,000	(431,000)
Change in Minority Interest in Subsidiaries	6,248,000	(106,000)
Other Uses	3,545,000	445,000
Addition to Working Capital	—	16,287,000
Total Funds Used	\$464,116,000	\$401,021,000
*Not including Intangible Development Costs of	\$ 54,898,000	\$ 52,700,000

(See Accompanying Notes)

	Revenues	Net Income
	(Thousands of Dollars)	
As previously reported:		
Sun Oil Company	\$1,173,250	\$108,576
Sunray DX Oil Company	592,084	54,464
	\$1,765,334	\$163,040
Adjustments to conform accounting policies and eliminations	24,449	6,895
As restated	\$1,740,885	\$156,145

In addition, the stockholders' equity at January 1, 1967, has been restated to give retroactive effect to the "pooling of interests," including the exchange of Sun preferred stock for Sunray common stock, the change in Sun common stock from no par value to par value \$1 per share, and the effect of conforming accounting policies. Earnings employed in the business at January 1, 1967, were reduced by \$135,155,000 to conform the methods of accounting for intangible development costs, foreign and offshore exploration costs and certain other accounting differences, and to reflect an estimated refund, including interest, required by a decision of the Federal Power Commission concerning the sale in prior years of certain leasehold rights.

Inventories

Crude oil inventories are valued generally on a last-in, first-out pricing method based upon the market prices of crude oil prevailing in the field at the time of production or purchase, plus the cost of transportation to the refineries.

Refined products inventories are valued generally on a last-in, first-out pricing method based upon the value of the oils taken out of inventory for refining (as computed above), plus refining costs. Transportation costs from refineries to marketing centers are carried at average costs.

At December 31, 1968, approximately 24 per cent of the value of crude oil and refined products inventories, principally in Canada, is valued at first-in, first-out or average cost.

Crude oil and refined products inventories, as valued on the foregoing bases, are stated at less than market.

Materials and supplies are valued at cost or less, principally on the basis of average cost. Work in process inventories are valued at cost less progress billings.

Depreciation, Cost Depletion and Retirements

Depreciation policy for accounting purposes is designed to recover on a straight-line basis the cost of properties, plants and equipment during their estimated useful lives. Experience is reviewed from time to time and rates are revised when necessary. For income tax purposes, accelerated depreciation is used in certain instances.

The cost of developed or producing leaseholds, which excludes intangible development costs, is depleted on the basis of crude oil and natural gas produced from the properties leased. For income tax purposes, a mineral depletion allowance is deducted when in excess of depletion based upon cost.

The cost of undeveloped leaseholds cancelled or surrendered during the year is customarily charged to income. This charge amounted to \$18,741,000 in 1968 and \$21,044,000 in 1967.

Intangible Development Costs

The cost of drilling wells to develop new sources of crude oil and natural gas is charged to income as incurred. Included in intangible development cost is dry hole expense of \$20,176,000 in 1968 and \$15,429,000 in 1967.

Taxes

Direct taxes, excise taxes collected from customers and payroll taxes withheld from employees are shown in the following table:

	1968	1967
	(Thousands of Dollars)	
Paid or Accrued		
Capital Stock and Franchise	\$ 2,002	\$ 1,971
Social Security	9,666	8,873
Crude Oil and Natural Gas		
Production	48,572	42,898
Ad Valorem	24,730	21,335
Import Duties, Transportation,		
Excise and Miscellaneous	3,384	3,518
Gasoline, Lubricating Oil,		
Use and Sales	3,233	3,168
	<u>91,587</u>	<u>81,763</u>
Income Taxes		
Federal	44,290	43,010
Foreign and Other	19,070	16,060
	<u>63,360</u>	<u>59,070</u>
	<u>154,947</u>	<u>140,833</u>
Federal income taxes included		
in extraordinary items	5,700	—
	<u>160,647</u>	<u>140,833</u>
Collected and Paid		
Excise taxes collected		
from customers	384,944	352,127
Taxes collected from		
employees	48,638	43,284
	<u>433,582</u>	<u>395,411</u>
Total	<u><u>\$594,229</u></u>	<u><u>\$536,244</u></u>

Taxes collected from customers and employees are not included in the consolidated statement of income.

Investment tax credits of \$11,182,000 in 1968 and \$10,100,000 in 1967 have been applied as a reduction of federal income tax expense.

The provision for income taxes includes deferred amounts of \$33,262,000 in 1968 and \$11,127,000 in

1967, the most significant portions of which result from additional deductions for past service pension costs and accelerated depreciation allowable currently for tax purposes.

Long Term Debt

The current portion of long term debt, amounting to \$21,095,000 in 1968 and \$20,249,000 in 1967, is included in Notes and Bonds Payable. Long term debt due after one year at December 31 includes the following:

	1968	1967
	(Thousands of Dollars)	
Sinking Fund Debentures		
4½ % due November 15, 1990		
payable \$4,000,000 annually		
1970-1989, \$20,000,000		
in 1990	\$100,000	\$100,000
4¼ % payable \$3,750,000		
annually 1971-1986,		
\$15,000,000 in 1987	75,000	75,000
Convertible debentures		
6% due May 15, 1975,		
partially convertible into		
common stock of a		
subsidiary company	11,212	11,597
Notes and Mortgages Payable		
4½ % payable quarterly		
through 1974	71,428	85,714
5¾ % payable \$2,000,000		
annually 1971-1990,		
\$10,000,000 in 1991	50,000	50,000
6½ -6¾ % short-term notes		
to be refinanced	46,366	29,854
6½ % due January 1, 1972	10,000	10,000
4.571%, assumed by buyer		
upon sale of Avisun		
Corporation in January, 1968	—	16,466
Euro-dollar loans	12,000	—
2½ % payable \$1,667,000		
semi-annually until 1970	3,326	6,660
4.95% payable \$177,631		
quarterly until 1978	5,135	5,578
6¼ -7%, payable over varying		
periods up to 25 years, with		
residential properties of		
Great Canadian Oil Sands		
Limited pledged as collateral	6,110	4,150
Other	18,079	15,785
	<u><u>\$408,656</u></u>	<u><u>\$410,804</u></u>

Stockholders' Equity

Each share of \$2.25 cumulative convertible preferred stock is entitled to one-quarter vote and each share of common stock is entitled to one full vote, voting together as one class.

Each share of preferred stock is convertible into .689 of a share of common stock, subject to adjustment for stock dividends and certain other transactions, and is redeemable at Sun's option on and after June 1, 1975, starting at \$60 per share and declining \$1 each year thereafter to \$57 per share.

The holders of the preferred stock have a preferential right in involuntary liquidation to receive \$52 per share, or \$55 per share if the liquidation is voluntary. Sun has been advised by legal counsel that under the

laws of New Jersey, in which it is incorporated, the excess of involuntary liquidation value of the preferred stock over the carrying value in the balance sheet will not restrict earnings employed in the business.

At December 31, 1968, 57,080 shares of unissued preferred stock are reserved for the exercise of outstanding stock options and settlement of incentive pay awards, and 12,785,504 shares of unissued common stock are reserved for potential conversion of issued and reserved shares of preferred stock.

Stock Option Plans

Under Sunray's incentive stock option plans in effect at the date of the merger, certain officers and key employees of the DX Division hold options at December 31, 1968 to purchase 53,564 shares of preferred stock at prices ranging from \$20.875 to \$33.75. The options expire at varying dates through 1972. Options for 41,183 shares were exercised during 1968 at an average price of \$26.38 per share. The terms of the merger agreement provide that no additional options may be granted under the former Sunray plans.

Pension Plans

Sun and certain of its subsidiaries have contributory funded pension plans providing retirement benefits for their employees. The total expense for these plans was \$23,706,000 in 1968 and \$23,002,000 in 1967 which includes amortization of past service costs principally over 20 to 30 years. The Companies' policy, with minor exceptions, is to fund pension cost accrued plus additional amounts as may be deductible for income tax purposes. Using the most recent actuarial calculations available, the value of vested benefits under the Sunoco Division plans exceeds the total of the pension funds by approximately \$100,000,000. The Sunoco Division pension funds include \$43,135,000 of prepaid pension costs. The assets of the DX Division pension fund exceeded the value of the vested benefits.

Extraordinary Items

The extraordinary gain of \$22,432,000, after deducting related income taxes of \$5,700,000, resulted from the sale of Sun's investment in Avisun Corporation, a wholly-owned subsidiary, in January 1968 for \$80,000,000.

The extraordinary loss of \$22,432,000 includes charges of \$573,000 for the establishment of a reserve for possible future losses on foreign operations and \$21,859,000 for Sun's share of unexpected pre-operating expenses of the Athabasca tar sands project of Great Canadian Oil Sands Limited. Due primarily to unexpected difficulties with the power plant boilers and other mechanical equipment, all costs incurred during the first nine months of 1968, which were pre-operating costs in excess of those originally anticipated, have been charged to expense as an extraordinary item. The tar sands project commenced commercial production on a sustained basis beginning October 1, 1968.

Contingent Liabilities and Commitments

Sun is contingently liable for guarantees of loans payable by associated companies and others approximating \$40,000,000 at December 31, 1968. Management considers that losses, if any, from these guarantees would not be significant.

Included in costs and expenses as rents and royalties are amounts of \$43,600,000 in 1968 and \$40,080,000 in 1967 which are considered an indication of future annual rentals. Approximately one-quarter of these amounts is recovered as service station rental income. Amounts of royalties are not significant.

Rents include all rentals due for the year, principally on real property under lease, and cover the mineral rights on properties being explored for crude oil and natural gas, service stations, offices, warehouses and rights of way.

When lessors' shares of crude oil and natural gas produced under the terms of the leases, are acquired from the lessors, they are considered to be purchases.

Accountants' Report

LYBRAND, ROSS BROS. & MONTGOMERY
CERTIFIED PUBLIC ACCOUNTANTS

BOARD OF DIRECTORS
SUN OIL COMPANY
PHILADELPHIA

We have examined the consolidated financial statements of Sun Oil Company and subsidiaries for the year ended December 31, 1968. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We also made a similar examination of the financial statements for the year 1967 which have been restated to reflect the pooling of interests, as described in the accounting for merger note to the financial statements.

In our opinion, the accompanying consolidated statements of financial position, income and earnings employed in the business, changes in capital stock and source and application of funds present fairly the financial position of Sun Oil Company and subsidiaries at December 31, 1968 and 1967, and the results of operations and source and application of funds for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Lybrand, Ross Bros. & Montgomery

Philadelphia, Pa.
February 17, 1969

Six Year Financial Summary - Sun Oil Company

	1968	1967	1966	1965	1964	1963
Revenues (Thousands of \$)						
Sales and Other Operating Income	1,778,183	1,710,573	1,562,603	1,400,387	1,295,338	1,305,272
Other Income	23,028	30,312	28,909	21,533	15,957	18,001
Total—excluding excise taxes	1,801,211	1,740,855	1,591,512	1,421,920	1,311,295	1,323,273
Net Income (Thousands of \$)	164,430	156,145	157,804*	118,404	98,713	100,896
Return on Revenues (%)	9.1	9.0	8.8**	8.3	7.5	7.6
Assumed Dividend Requirements on Full Shares Preferred Stock Outstanding	41,614	41,614	41,614	41,614	41,614	41,614
Net Income Applicable to Common Stock ..	122,816	114,531	116,190	76,790	57,099	59,282
Earned Per Full Common Share Outstanding at December 31, 1968 (\$).	4.59	4.28	4.34*	2.87	2.13	2.21
Cash Dividends Paid (Thousands of \$)						
Sun Preferred—after merger	9,490	—	—	—	—	—
Sun Common	25,208	23,851	19,646	15,923	15,160	14,399
Sunray Common—before merger	20,778	26,288	26,051	25,708	25,630	25,640
Stock Dividends on Common Stock (%) ...	6	5	6	6	5	6
Shares Distributed (Thousands)	1,540	1,222	1,383	979	777	878
Stock Split (4 for 3)						
Shares Distributed (Thousands)	—	—	5,763	—	—	—
Stock—December 31 (Shares in Thousands)						
Sun Preferred—Full Shares Outstanding ..	18,495	—	—	—	—	—
—Number of Stockholders	89,844	—	—	—	—	—
Sunray Common (Prior to 1968)						
—Shares Outstanding	—	18,462	18,443	18,379	18,354	18,353
—Number of Stockholders	—	99,907	101,363	101,919	104,401	102,678
Sun Common—Full shares Outstanding ..	26,777	25,118	23,797	16,852	15,928	15,164
—Number of Stockholders	35,746	34,537	33,228	31,162	30,363	29,908
Stockholders' Equity (Net Assets)						
December 31 (Thousands of \$)	1,518,950	1,399,549	1,284,933	1,172,824	1,095,607	1,038,135
Return on Average Stockholders' Equity (%)	11.3	11.6	12.8*	10.4	9.2	10.0
Capital Expenditures (Thousands of \$)						
Exploration and Production						
Leases	55,861	43,749	35,569	45,943	29,883	19,296
Equipment	41,496	51,665	35,036	39,247	27,196	33,177
Total	97,357	95,414	70,605	85,190	57,079	52,473
Natural Gas Plants and Other	21,426	15,772	10,190	6,489	11,174	4,748
Total	118,783	111,186	80,795	91,679	68,253	57,221
Manufacturing	41,829	81,957	62,629	18,712	17,290	9,122
Marketing	90,124	71,686	72,864	60,321	57,737	35,342
Transportation	10,165	11,428	3,649	3,553	3,533	4,058
Mining	3,944	31	165,780	72,286	7	23
Shipyard and Others	3,751	4,938	8,920	871	843	798
Total	268,596	281,226	394,637	247,422	147,663	106,564
Intangible Development Costs	54,898	52,700	58,451	61,907	53,136	42,002
Total	323,494	333,926	453,088	309,329	200,799	148,566
U.S. and Canada (%)	91	92	96	88	92	97
Other (%)	9	8	4	12	8	3
Expenditures for Exploration and Development (Thousands of \$)						
Capital Expenditures	97,357	95,414	70,605	85,190	57,079	52,473
Intangible Development Costs	54,898	52,700	58,451	61,907	53,136	42,002
Other Expenses Including Lease Rentals ..	50,249	55,124	55,360	49,570	48,043	44,115
Total	202,504	203,238	184,416	196,667	158,258	138,590
U.S. and Canada (%)	88	86	87	83	90	94
Other (%)	12	14	13	17	10	6
Taxes (Thousands of \$)						
Operating	91,587	81,763	78,366	74,702	72,529	68,456
Domestic and Foreign Income	69,060***	59,070	54,406***	34,037	19,963	27,532
Paid or Accrued by Company	160,647	140,833	132,772	108,739	92,492	95,988
Collected from Customers	384,944	352,127	335,513	307,246	297,913	277,550
Collected from Employees	48,638	43,284	37,110	30,874	29,962	33,008
Total	594,229	536,244	505,395	446,859	420,367	406,546
Salaries, Wages, Benefits (Thousands of \$)						
Oil Division—U.S. and Canada	263,508	249,833	224,543	202,966	194,367	193,555
—Other	6,401	5,318	5,000	5,372	5,039	4,295
Total	269,909	255,151	229,543	208,338	199,406	197,850
Shipbuilding and Repair	45,127	41,999	40,669	32,115	28,688	24,092
Total	315,036	297,150	270,212	240,453	228,094	221,942

* Includes extraordinary income of \$17,280,000 (\$0.65 per share).

** Excludes extraordinary item above.

*** Includes taxes of \$5,700,000 in 1968 and \$9,687,000 in 1966 on sales of Avisun and Great Lakes Pipe Line respectively.

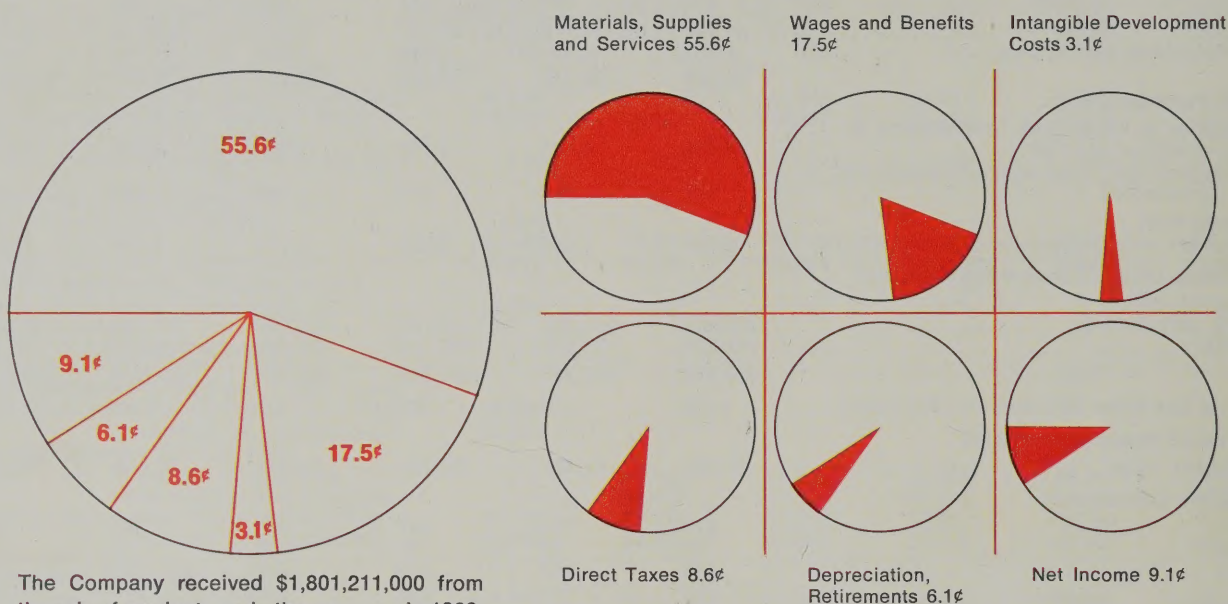
Six Year Operating Summary - Sun Oil Company

	1968	1967	1966	1965	1964	1963
Average Number of Employees						
Oil Division—U.S. and Canada	23,983	23,580	22,144	22,235	21,955	22,022
—Other	806	539	547	606	604	542
Total	24,789	24,119	22,691	22,841	22,559	22,564
Shipbuilding and Repair	4,657	4,731	4,698	3,909	3,515	3,058
	29,446	28,850	27,389	26,750	26,074	25,622
Stock Purchase Plan						
Number of Employees Participating in Liquidation at 6/30	8,034	8,075	8,182	9,203	9,849	10,070
Shares of Sun Common Stock Distributed (Thousands)	297	337	310	254	262	212
Savings Plan						
Number of Employees Participating 12/31	3,937	3,965	3,865	3,776	3,965	3,991
Net Crude Oil and Condensate Produced						
(Barrels daily)						
U.S. and Canada	215,690	211,280	193,756	182,092	177,040	174,534
Other	113,380	101,991	108,130	106,292	104,954	97,947
Total	329,070	313,271	301,886	288,384	281,994	272,481
Natural Gas Sales (Million Cubic Feet daily)	1,505	1,347	1,303	1,194	1,148	1,082
Processed Natural Gas Liquids						
(Barrels daily)	47,646	41,458	37,450	34,314	33,928	32,258
Net Wells Completed						
Oil	224	273	317	391	340	358
Gas	67	89	86	110	88	91
Dry	143	153	223	274	285	274
Total	434	515	626	775	713	723
Net Producing Wells 12/31						
Oil	9,424	9,376	9,291	9,381	9,320	9,223
Gas	1,481	1,415	1,392	1,267	1,226	1,136
Total	10,905	10,791	10,683	10,648	10,546	10,359
Producing Acreage (Thousands)	1,052	991	977	942	892	841
Undeveloped Acreage (Thousands)	45,443	48,153	48,588	41,968	39,029	36,134
Synthetic Crude —net produced for shipment (barrels daily)	23,685*	—	—	—	—	—
Crude Refined (Barrels daily)						
Corpus Christi, Texas	44,079	44,688	44,469	42,337	42,100	44,712
Duncan, Oklahoma	45,842	44,490	44,249	42,289	42,031	41,173
Marcus Hook, Pennsylvania	157,871	147,049	144,953	136,514	137,769	137,386
Sarnia, Ontario	31,412	26,446	29,309	28,169	23,822	23,270
Toledo, Ohio	104,263	94,577	100,952	91,523	85,095	86,422
Tulsa, Oklahoma	81,550	80,357	80,325	75,931	75,028	73,290
Monrovia, Liberia	246**	—	—	—	—	—
Total	465,263	437,607	444,257	416,763	405,845	406,253
Crude Refined as % of Rated Capacity	97	94	96	90	88	87
Crude Refined for Sun's Account—Venezuela (barrels daily)	22,039	20,628	18,177	15,519	10,847	—
Shipments through Sun Owned or Operated Pipelines (Millions of Barrel Miles)						
U.S. and Canada						
Crude Oil	10,334	10,565	10,864	10,375	9,520	8,936
Refined Products	16,493	16,554	16,024	14,335	14,905	14,982
Total	26,827	27,119	26,888	24,710	24,425	23,918
Other—Crude Oil	3,167	2,762	2,838	2,801	2,613	2,225
Ocean-Going Tankers Owned	9	9	9	10	10	10
Capacity (Barrels of 36° Crude)	2,000,600	2,000,600	2,000,600	2,132,600	2,132,600	2,132,600
Sales of Refined Products (Barrels daily)						
Gasoline	285,446	277,276	271,121	252,803	243,366	233,962
Middle Distillates	129,562	133,343	131,736	122,105	108,296	114,770
Residual Fuel	28,543	25,885	24,944	27,073	26,660	28,149
Chemicals	19,587	17,796	17,262	15,678	13,448	13,073
Lubricants and Other	75,345	60,712	58,066	52,397	44,597	41,881
Total	538,483	515,012	503,129	470,056	436,367	431,835
U.S. and Canada (%)	96	94	94	94	97	97
Other (%)	4	6	6	6	3	3
Service Station Type Outlets Retailing Branded Motor Products	17,100	16,800	17,000	16,600	16,900	16,400

*92 days—plant became commercially operational October 1, 1968; pre-operational production was 3,296,000 barrels.

**Based on full year—new refinery on stream late in 1968.

Distribution of Sun's Revenue Dollar—1968



The Company received \$1,801,211,000 from the sale of products and other sources in 1968. Here is how each of those dollars was used.

Crude Oil Production

	Net Crude Oil and Condensate Thousands of Barrels —Year 1968
United States	
Arkansas	1,326
California	2,766
Colorado	399
Florida	770
Kansas	1,849
Kentucky	438
Louisiana	12,014
Michigan	1,043
Mississippi	2,558
Montana	400
New Mexico	2,422
Oklahoma	9,195
Texas	37,992
Utah	438
Other States	1,065
	<u>74,675</u>
Canada	<u>4,268</u>
Venezuela	<u>41,497</u>
Total	<u>120,440</u>

Reserves of Liquids and Gas

Proved underground reserves of crude and condensate in the United States and Canada at December 31, 1968, were estimated to be 1,037,000,000 barrels (net). Estimated reserves of recoverable natural gas liquids were 172,000,000 barrels (net). Similar net reserves of natural gas were estimated at 7.9 trillion cubic feet. Proved underground reserves of crude and condensate were estimated to be 356,000,000 barrels (gross) in Venezuela.

Oil and Gas Acreage

	Thousands of Acres (Net) December 31, 1968	
	Producing	Undeveloped
United States		
Alaska	—	542
Arkansas	11	117
California	12	28
Colorado	17	66
Florida	4	241
Kansas	50	142
Kentucky	2	90
Louisiana	82	406
Michigan	15	150
Mississippi	15	449
New Mexico	36	273
Oklahoma	237	705
Texas	468	2,169
Wyoming	2	175
Other States	21	799
	<u>972</u>	<u>6,352</u>
Canada	<u>61</u>	<u>3,509</u>
	1,033	9,861
Foreign		
Argentina	—	762
Australia	—	25,936
Bahamas	—	676
Borneo	—	225
Colombia	—	59
Dubai	—	196
Iran	3	155
Mozambique	—	4,800
New Guinea	—	2,150
Nigeria	—	140
North Sea	—	474
Venezuela	16	9
	<u>19</u>	<u>35,582</u>
Total	<u>1,052</u>	<u>45,443</u>

Directors and Officers Sun Oil Company

J. HOWARD PEW, Chairman, Board of Directors
PAUL E. TALIAFERRO, Deputy Chairman, Board of Directors
ROBERT G. DUNLOP, Director and President
DARWIN W. FERGUSON, Director and Executive Vice President
R. EDWIN FOSS, Director and Executive Vice President
DONALD P. JONES, Director and Vice President
JOSEPH T. WILSON, JR., Director and Secretary-Treasurer
JOSEPH R. LAYTON,¹ Director and Comptroller
WILBURN T. ASKEW, Director
CHARLES L. BOYLE,² Director
ELMER R. BRADLEY, Director
JACK A. COLLINS,³ Director
JOHN H. DOUMA, Director
R. PAUL HENRY, Director
CHALMER G. KIRKBRIDE, Director
JNO. G. PEW, Director
WALTER C. PEW, Director
L. GAYLE RODGERS,⁴ Director
KINGSLEY V. SCHROEDER, Director

¹ Elected Director and Comptroller December 17, 1968.

² Retired December 31, 1968.

³ Elected Director and Vice President effective January 1, 1969.

⁴ Elected Director December 17, 1968.

Sunoco Division Officers (Philadelphia)

DARWIN W. FERGUSON, Chief Executive Officer
WILBURN T. ASKEW, Vice President
ELMER R. BRADLEY, Vice President
JACK A. COLLINS, Vice President
CHALMER G. KIRKBRIDE, Vice President
KINGSLEY V. SCHROEDER, Vice President

DX Division Officers (Tulsa)

R. EDWIN FOSS, Chief Executive Officer
JOHN H. DOUMA, Senior Vice President
R. PAUL HENRY, Senior Vice President
L. GAYLE RODGERS, Senior Vice President
WARREN E. BURCH, Vice President
GLEN BURROUGHS, Vice President
R. W. ELLIS, Vice President
F. B. FULENWIDER, Vice President
J. P. GREVE, Vice President
GORDON E. HILLHOUSE, Vice President
N. B. INGRAM, Vice President
FLOYD L. MILES, Vice President
DANIEL R. TOLL, Vice President
CLYDE A. WHEELER, JR., Vice President

Principal Offices:

1608 Walnut Street
Philadelphia, Pennsylvania 19103

907 South Detroit Avenue
Tulsa, Oklahoma 74120

Registrars:

Common and Preferred Stock
Bankers Trust Company, New York and
Girard Trust Bank, Philadelphia

Transfer Agents:

Common Stock
The Chase Manhattan Bank, New York and
The Fidelity Bank, Philadelphia

Preferred Stock

Manufacturers Hanover Trust Company, New York
and The Fidelity Bank, Philadelphia

Annual Meeting:

Tuesday, April 15, 1969, 2:00 p.m., Sun Center
Feltonville, Delaware County, Pennsylvania

Sun Oil Company

1608 WALNUT STREET

PHILADELPHIA, PA. 19103

